

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 ANKARA 001306

SIPDIS

SENSITIVE

NSC FOR BRYZA
USDOC FOR 4212/ITA/MAC/OEURA/CPD/DDEFALCO
USDOE FOR CHUCK WASHINGTON

E.O. 12958: N/A
TAGS: [ENRC](#) [EPET](#) [TU](#)
SUBJECT: TURKEY: BP TIES UP LOOSE ENDS WITH GOT

REF: A. ANKARA 703

[B](#). ANKARA 566
[C](#). ANKARA 131

SENSITIVE BUT UNCLASSIFIED

[1](#). (SBU) SUMMARY: BP has engaged in a recent flourish of outreach to Turkey. With the BTC consortium having agreed to cover cost over-runs in Turkey, BTC remains on track for first oil at Ceyhan at the end of September. BP and the GOT will then turn attention in Turkey to the Shah Deniz gas pipeline. While the GOT is perceived as better managing Turkish Straits traffic, there seems to be a growing industry consensus on the need for a bypass. End Summary.

BP Will Cover Over-runs

[2](#). (SBU) According to Turkey and Azerbaijan - based BP officials, the BTC consortium has agreed to extend loans of \$160 million to BOTAS to cover cost overruns on BTC construction in Turkey. The loans would be repaid from future cash flow from the project and are intended to avoid a sensitive call on the GOT Treasury guarantee to cover costs over the fixed price construction contract. This apparently resolves a brewing dispute with the GOT over responsibility for the over-runs (Ref B), which had the potential to mar the good feeling surrounding BTC opening later this year.

First Tanker Load at Ceyhan at End of September

[3](#). (SBU) BP officials confirmed that BTC was on track for first tanker loading at Ceyhan at the end of September. BP Azerbaijan President, David Woodward, told the Ambassador February 28 that BP had worked closely with BOTAS to work out problems with construction subcontracts for troubled Lots A and B (Ref C). Whereas BOTAS had taken over the subcontract from Turkish firm TEPE in Lot A - adjacent to Georgia (TEPE is still taken care of pumping stations), more recently surfacing commercial problems in the Lot B sub-contract with Turkish firm Alarko were being handled with closer intervention by BOTAS. Woodward added that BOTAS' actually taking over the additional contract might have gone beyond BOTAS' capacity. The remaining Lot C and the Ceyhan port facility are very close to completion. Woodward stated that the Turkish pipeline would be ready to start filling at the end of June.

[4](#). (SBU) Turning to the upstream end, Woodward said that Azerbaijan offshore production had commenced. Noting that the Azerbaijan portion of BTC would be ready at the beginning of May, he said that existing pipelines would be used in the meantime for transport of product. Woodward lamented extensive sub-contractor woes in Georgia, but observed that they had worked through claims and the pipeline would be ready at the Georgian border with Turkey around the end of May.

Other Oil and Gas

[5](#). (SBU) Woodward also noted positive discussions with Kazakhstan on arranging egress of Kashagan crude oil via Aktau to Baku, initially by tankers. He stated that BTC capacity could almost be doubled by 2012, using drag reducing agents and incremental pumping stations to accommodate increased oil. Woodward also noted that construction had started on the South Caucasus (Shah Deniz) natural gas pipeline, which is planned to run parallel to BTC. He anticipated that construction would be complete to the Turkish border by the end of 2005, and ready for first gas flow in 2006. The BP official stated that there would be plenty of time for Turkey to complete its portion from the border to connect to the Turkish grid at Erzurum, noting that Turkey would be able to use BTC construction camps and facilities.

Wildcat Drilling in the Black Sea

16. (SBU) On exploration in Turkey, BP officials said that BP aimed to start exploratory drilling in the eastern Black Sea in June using a rig leased from the American company Santa Fe. They noted that there was favorable geology on both sides of the maritime border between Georgia and Turkey where BP had garnered drilling rights from both countries. While Woodward commented that the two countries had not yet mutually recognized their deep sea border, he expected that this would be worked out and would not affect development. He expected initial results from the drilling later in the summer, noting that this well was a "wildcat" in that it was new territory. Woodward admitted that success in exploration here would provide increased impetus for a Bosphorus bypass.

Bosphorus Bypass

17. (SBU) Turkish MFA Energy and Water DDG Mithat Rende confirmed recent positive discussions between TNK-BP and GOT officials (Ref A) on Bosphorus bypass options. GOT and most oil shippers perceive that Turkish Straits are at capacity - 2004 shipping is marginally higher than 2003 at 2.1 million bpd (2.8 million bpd including refined and related products) - and acknowledge the need for a bypass. Rende pointed out that this was contrary to the views of some other Russian companies, which have focused only on cheapest route. Various oil companies and shippers have told EconOff that after over a year of using new VTS (Vessel Tracking System) technology, GOT has made great progress in safely and efficiently managing traffic, but there was room for additional improvement in straits management. Mithat Rende expressed concern that the number of tankers had grown to 9,399 in 2004, reflecting more tankers less than 200 meters long, and potentially posing greater risk. Rende was positive on both BP and ChevronTexaco's serious pursuit of Bosphorus bypass options. However, he emphasized that companies needed to look at all options, including trans-Thrace routes. Rende described GOT concerns about the Burgos-Alexandropolos route under consideration by TNK-BP, emphasizing environmental and large tanker access concerns. Rende repeated the long-standing GOT position that a Samsun-Ceyhan bypass would be the best option, but stated that the project would have to stand on its own commercial merit. He asserted that the market could eventually support two different bypass projects: one each for Kazakhstan and Russia sourced crude oil.

Energy Dialogue

18. (SBU) Mithat Rende expressed strong support for building the U.S. Turkey Energy Dialogue, but emphasized the need for both GOT MFA and U.S. State Department to be closely involved - along with the Energy Ministries - under the umbrella of the Economic Partnership Committee. Rende said he got a positive read-out from Ambassador Akinci's recent visit to Washington, including his meetings with Ambassador Mann and DOE DAS Brodman. He said both sides expressed strong support for Turkey as an energy hub. Rende said they shared U.S. concern about Gazprom acquiring the natural gas network in Georgia, as part of an overall concern about the risk of monopolies in the region. He said he would be willing and able to travel to Washington this year if it would help facilitate the bilateral energy dialogue.

Comment

19. (SBU) BP officials (from Istanbul, Baku, and Moscow TNK-BP) have been actively soliciting meetings with the Embassy in the count-down to first oil at Ceyhan and to promote the full range of BP activities in Turkey and the region. Given the scale and complexity of the three-country BTC construction project, everyone will be happy to declare victory with oil flow at the outlet sometime in fourth quarter 2005. In the meantime, the date for celebration in Ceyhan is not yet fixed.

EDELMAN